

**COUNTRY PROFILE:****PARAGUAY****DATED:****SEPTEMBER 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

|                   | <i>Country Rating</i> | <i>U/W Method</i> |
|-------------------|-----------------------|-------------------|
| <i>Short-term</i> | 3C                    | No Restrictions   |

*Recent Political Highlights*

- ❑ Chief of state President Fernandez Lugo Mendez was elected in August 2008 for a five-year term. The next election is scheduled for 2013.
- ❑ The president brought to end the nearly six decades of single-party rule and promised to fight corruption, reduce poverty and promote a competitive economy to lure Paraguayans working abroad (about 5.000 citizens leave the country each month in search of work).
- ❑ The Social and Popular Front, which draws together hundreds of social and farmers' organisations in Paraguay recently, have joined a march in Asuncion, the capital and a mass rally in front of the National Congress to support President Lugo. The demonstrations demanded the withdrawal of Congress President Enrique Gonzalez, change in the judicial power and resignation of Attorney General Ruben Candia, as they were exposed in a meeting attempting to plan a coup.

*Recent Economic Highlights*

- ❑ Paraguay has a population of 6.8m people with an expected growth rate of 2.4% in 2008. Almost 36% of the population lives in poverty.
- ❑ Paraguay - about the same size as Bolivia - is South America's largest producer of marijuana and a major transit country for Andean cocaine sold in Brazil and Europe.
- ❑ President Lugo takes the reins of an \$11bn economy that is running a budget surplus of 0.5% of GDP this year. Surging soybean exports will push Paraguay's GDP growth up by 5% this year compared with 7% last year. Paraguay's currency, the guarani, has strengthened 7.6% to 3.983:\$1 since Lugo's election. The president wants to raise rates charged to Brazil and Argentina for electricity generated at the Itaipu and Yacyreta dams which earn Paraguay \$680m a year.
- ❑ The IMF estimated that food price hikes in 2007-08 boosted Paraguay's trade balance by 12.2% of its 2005 GDP, the only country worldwide to have a double-digit increase. The IMF says that Paraguay has become the world's fourth largest soybean exporter with production doubling in two years, having boosted exports by 77% in 2007. From 6.8m tonnes this year, production is expected to reach as much as 18m tonnes in the next few years. The production of corn, sunflower and canola has nearly tripled between the 2004/05 and 2006/07 seasons.
- ❑ Paraguay plans to drop its loan option with the IMF. The country has not used IMF funds since 1984 and its economy has been growing steadily. It is following the trend set by neighbouring countries that have terminated their reliance on the IMF in order to show financial independence. Reserves as at March stood at \$2.8bn. The IMF projects that the economy will grow by 4% this year and 4.5% next year.

*Latest Trade Developments*

- ❑ Major exports: soybeans, feed, cotton, meat, edible oils, electricity, wood and leather.
- ❑ Major imports: road vehicles, consumer goods, tobacco, petroleum products, electrical machinery, tractors, chemicals and vehicle parts.
- ❑ Main trading partners: Uruguay, Brazil, Russia, Argentina, Chile, Germany, US and China.
- ❑ The president will visit Brazil this month to push for negotiations to pay more for the energy from the Itaipu dam. Brazil pays \$400m for the energy it receives under the terms of the 1974 treaty that Paraguay says is outdated, but Brazil is adamant to stick to the treaty.
- ❑ Venezuelan president Hugo Chavez promised Paraguay's new leftist president a steady supply of fuel to prevent shortages that could lead to civil unrest. An accord to supply 23.500 barrels of oil and derivatives daily was subsequently signed. The poor South American country has no reserves and depends solely on imports for its petroleum needs. Petroleos de Venezuela SA did not disclose the amount of oil it already supplies to Paraguay. Paraguay's daily consumption of oil totaled 27.410 bpd in July.
- ❑ South African exports to Paraguay totaled R16m in 2007 from R13m in 2006 and R8m in the year to March 2008.

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